

AR25

# Galt Malleable Iron Limited

## Annual Report 1973

# Galt Malleable Iron Limited and subsidiary companies

## Officers

David L. Chandler  
*Chairman of the Board*

Hugh C. Mackay  
*Vice Chairman*

Douglas R. McKay  
*President  
and Chief Executive Officer*

Frank W. Simpson  
*Secretary-Treasurer*

Charles A. Thompson  
*Vice President—  
Corporate Development*

## Directors

David L. Chandler, *Executive*  
c/o Garvey, Ferriss  
Toronto, Ontario

Hugh C. Mackay, *Executive*  
Victoria, B.C.

Douglas R. McKay, *Executive*  
Galt Malleable Iron Limited  
Cambridge, Ontario

Robert W. Navarre, *President*  
Simpson Industries Inc.  
Litchfield, Michigan

Harold J. Murphy, Q.C.  
Garvey, Ferriss  
Toronto, Ontario

Frank W. Simpson, *Executive*  
Galt Malleable Iron Limited  
Cambridge, Ontario

James W. Hallock, *Director, Casting Sales*  
U.S. Sales Office  
Albion, Michigan

### Bankers

The Royal Bank of Canada  
Cambridge

### Solicitors

Garvey, Ferriss  
Toronto

### Auditors

Thorne Gunn & Co.  
Cambridge

### Transfer Agents and Registrars

Guaranty Trust Company of Canada  
Toronto

The Annual and General Meeting of Galt Malleable Iron Limited and subsidiary companies will be held at 10 o'clock in the forenoon, Toronto time, in the Library, The Royal York Hotel, on Tuesday, April 30, 1974.

# Five Year Financial Review

## Statement of Income

	1973	1972	1971	1970	1969
Sales	\$11,227,003	\$ 9,928,126	\$ 8,360,270	\$ 7,389,728	\$ 7,242,867
Cost of sales	9,244,465	8,071,737	6,716,742	6,322,289	5,828,322
Gross profit	1,982,538	1,856,389	1,643,528	1,067,439	1,414,545
Sales, financial and administrative expenses	1,149,998	1,020,694	860,542	831,744	626,380
Income before income taxes, minority interest and extraordinary items	832,540	835,695	782,986	235,695	788,165
Income taxes	370,849	437,294	410,085	141,666	444,990
Income before minority interest and extraordinary items	461,691	398,401	372,901	94,029	343,175
Dividends on preference shares paid to minority shareholders of subsidiary company		3,000	12,000	12,000	15,780
Income before extraordinary items	461,691	395,401	360,901	82,029	327,395
Extraordinary items					177,850
Net income for the year	\$ 461,691	\$ 395,401	\$ 360,901	\$ 82,029	\$ 505,245

## Financial and other Information

Working capital	\$ 772,739	\$ 1,007,983	\$ 1,060,633	\$ 712,095	\$ 960,357
Working capital ratio	1.39:1	1.87:1	1.88:1	1.61:1	1.62:1
Long-term debt	\$ 2,248,076	\$ 2,965,265	\$ 3,502,697	\$ 3,700,410	\$ 2,774,600
Number of common shares outstanding*	652,500	652,500	652,500	652,500	652,500
Common shareholders' equity	\$ 3,426,868	\$ 3,122,448	\$ 2,845,885	\$ 2,586,454	\$ 2,508,288
Equity per common share	\$ 5.25	\$ 4.79	\$ 4.36	\$ 3.96	\$ 3.84
Cash flow per common share	\$ 1.55	\$ 1.45	\$ 1.33	\$ .33	\$ 1.09
Earnings per common share*	\$ .70	\$ .60	\$ .55	\$ .12	\$ .77
Common share return on common equity	13.3%	12.5%	12.6%	3.0%	20.0%

\* Including extraordinary items. The figures for 1969 and 1970 have been adjusted to reflect the subdivision of common shares effected in 1971.



## Report to Shareholders

On behalf of your Directors, we are pleased to present the 1973 annual report for Galt Malleable Iron Limited and its subsidiary companies, Galt-Brantford Malleable Limited and G.M.I. Properties Limited, together with the consolidated financial statements for the fiscal year ended December 31, 1973.

### Financial Results

Again during 1973, your company attained an increase in both sales and earnings. With a sales growth of 13 percent combined with increased earnings in excess of 16 percent, it is very indicative that your company's program of modernization and improved productivity is achieving the result we desire.

Sales for the year ended December 31, 1973 were \$11,227,003 compared to \$9,928,126 in 1972. Net after-tax profit for the year was \$461,691 or 70 cents per common share, up from \$395,401 or 60 cents per common share in the fiscal year 1972.

Your company serves the North American automotive market extensively and exports over 50 percent of its products to original equipment manufacturers in the United States. Taking into account the increased costs of doing business in 1973, American price controls, and the effect of the energy restrictions, we consider the sales and earning growth of the company favourable.

Your directors were pleased to declare a tax-free dividend of 20 cents per common share on December 21, 1973 to all shareholders of record at December 14, 1973.

### Operations

Your foundry divisions again had a successful year in terms of production and efficiency. At our Cambridge (Galt) plant we initiated during the 1973 fiscal year a second shift which has increased our production capacity by approximately 25 percent. Also in Cambridge, the changes and investment your company has made in the installation of anti-pollution control equipment, has achieved, above anything else, excellent relationships within the community. These changes have been welcomed and approved by our neighbours and are considered vitally important since our plant is located in the centre of town.

At our Brantford Township plant, the changes in our manufacturing plan since last year have assisted in our continuing program to increase profits. Effective programs of management training at all levels will, we are sure, continue to increase the effectiveness of this relatively new facility.

The growth of our Hardware Division has continued. During the fiscal year under review, we formed Molectrics Canada Inc. located in Waterloo, Ontario. This company has a unique and specialized process for the electro-chemical plating of metal, a process which in turn has growth potential for the treatment of a variety of metals including stainless steel and ferrous castings.

In January of 1974, your company took over control of Spraymould Limited, also of Waterloo, a company which is engaged in the moulding of thin-walled plastic products directly from powder by means of electrostatic coating.

## Capital Expenditures

Capital expenditures for the year under review were \$325,310; this reflects the balancing of our manufacturing facilities and expenditures on new plants.

## Employees of the Company

Your directors are pleased to express their appreciation for the diligent efforts, loyalty and dedication of our employees during the past year.

## Announcement

On February 8, 1974, your company entered into an agreement with Bartaco Industries Limited of Orillia, Ontario, and Alco Standard Corporation of Valley Forge, Pennsylvania, the major shareholder of Bartaco, whereby your company would take over voting share control of Bartaco Industries Limited and would assume management control of certain other Bartaco related companies effective February 11, 1974.

These companies include a substantial foundry operation, a manufacturing operation, and the Wayne Forge Company, all of which are located in Orillia. In addition to the foregoing the other companies which came under the control of Galt Malleable Iron Limited pursuant to the Bartaco Agreement, are the Gas Machinery Company (Canada) Limited, located in Rexdale, Ontario and the Lynco Heating Company of Stoney Creek, Ontario.

We believe that this acquisition will add considerable strength to your company for the future growth of our diversified operations.

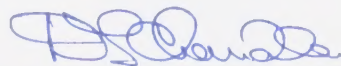
## Annual and General Meeting

The annual meeting of the shareholders will be held in the Library of the Royal York Hotel, Toronto, on Tuesday, April 30, 1974 at 10 a.m. Toronto time. Notice of this meeting together with the Information Circular is enclosed with this report.

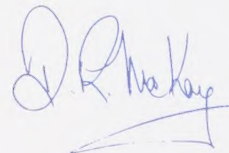
We hope that you will find it possible to attend this meeting of your company as we always enjoy meeting our shareholders and answering any questions relating to our operations. If you are unable to attend, may we ask that you exercise your franchise by signing and returning your proxy so that you will be represented at the meeting.

On behalf of the Board

D. L. CHANDLER  
*Chairman*



D. R. McKay  
*President*



CAMBRIDGE, Ontario  
March 26, 1974.



## Consolidated Statement of Income

YEAR ENDED DECEMBER 31

	1973	1972
Sales	\$11,227,003	\$ 9,928,126
Cost of goods sold	9,244,465	8,071,737
Gross profit	1,982,538	1,856,389
Selling, financial and administrative expenses (including interest on long-term debt: 1973, \$232,764; 1972, \$272,827)	1,149,998	1,020,694
Income before income taxes and minority interest	832,540	835,695
Income taxes		
Current	189,713	232,551
Deferred	181,136	204,743
	370,849	437,294
Income before minority interest	461,691	398,401
Dividends on preference shares paid to minority shareholders of subsidiary company		3,000
NET INCOME FOR THE YEAR	\$ 461,691	\$ 395,401
EARNINGS PER SHARE, after deducting dividends on preference shares	\$ .70	\$ .60

## Consolidated Statement of Retained Earnings

YEAR ENDED DECEMBER 31

	1973	1972
Balance at beginning of year		
As previously reported	\$ 2,391,957	\$ 2,115,454
Adjustment of prior years' income taxes (note 8)	33,951	33,951
As restated	2,358,006	2,081,503
Net income for the year	461,691	395,401
	2,819,697	2,476,904
Dividends on		
First preference shares	1,998	2,002
Second preference shares	1,744	1,744
Common shares	130,500	97,880
Tax paid on undistributed income	23,029	17,272
	157,271	118,898
BALANCE AT END OF YEAR	\$ 2,662,426	\$ 2,358,006

# Consolidated Statement of Contributed Surplus

YEAR ENDED DECEMBER 31

	1973	1972
Balance at beginning of year	\$ 131,740	\$ 131,680
Discount on preference shares purchased for cancellation		60
BALANCE AT END OF YEAR	<u>\$ 131,740</u>	<u>\$ 131,740</u>

# Consolidated Statement of Source and Application of Funds

YEAR ENDED DECEMBER 31

	1973	1972
SOURCE OF FUNDS		
Operations		
Net income for the year	\$ 461,691	\$ 395,401
Items not involving current funds		
Depreciation and amortization	368,004	349,798
Deferred income taxes	181,136	204,743
Discount on bonds purchased for cancellation	(1,573)	(3,045)
	<u>1,009,258</u>	<u>946,897</u>
Sale of fixed assets	5,473	
Reduction of sinking fund cash	13,545	
	<u>1,028,276</u>	<u>946,897</u>
APPLICATION OF FUNDS		
Additions to fixed assets	325,310	141,500
Long-term debt paid or included in current liabilities	680,734	516,432
Purchase and redemption of sinking fund bonds	48,427	17,955
Dividends	134,242	101,626
Tax paid on undistributed income	23,029	17,272
Increase in life insurance, cash surrender value	4,278	4,522
Reclassification of marketable securities	47,500	
Preference shares redeemed by subsidiary company		200,000
Purchase of preference shares		240
	<u>1,263,520</u>	<u>999,547</u>
	<u>235,244</u>	<u>52,650</u>
DECREASE IN WORKING CAPITAL		
WORKING CAPITAL AT BEGINNING OF YEAR		
As previously reported	1,069,301	1,121,951
Adjustment of prior years' income taxes (note 8)	61,318	61,318
As restated	<u>1,007,983</u>	<u>1,060,633</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 772,739</u>	<u>\$ 1,007,983</u>

# Consolidated Balance Sheet

AS AT DECEMBER 31

## Assets

### CURRENT ASSETS

Marketable securities, at cost (quoted market value 1973, \$2,150; 1972, \$33,750)

Accounts receivable

Income taxes recoverable

Insurance proceeds receivable

Inventories (note 2)

Prepaid expenses

### OTHER ASSETS

Investments (note 3)

Life insurance, cash surrender value

### FIXED ASSETS (note 4)

Land

Buildings

Machinery and equipment

Railway siding

Less accumulated depreciation

DEFERRED FINANCIAL EXPENSE, less amortization

1973	1972
\$ 2,084	\$ 47,500
1,283,033	1,002,776
172,796	115,314
	108,428
1,266,068	865,942
21,362	29,868
2,745,343	2,169,828
257,500	210,000
23,527	19,249
281,027	229,249
95,079	95,079
2,128,827	2,024,069
5,624,876	5,419,950
3,951	3,951
7,852,733	7,543,049
2,565,981	2,212,969
5,286,752	5,330,080
32,419	37,257
\$8,345,541	\$7,766,414

Approved by the Board

D. R. McKAY  
Director

F. W. SIMPSON  
Director



## Liabilities

### CURRENT LIABILITIES

Bank advances, against which book debts and inventories have been pledged	
Accounts payable and accrued liabilities	
Taxes payable	
Principal due within one year on long-term debt	

### LONG-TERM DEBT (note 5)

### DEFERRED INCOME TAXES

1973	1972
\$ 290,905	\$ 125,285
893,891	586,202
72,258	66,342
715,550	384,016
1,972,604	1,161,845
2,248,076	2,965,265
636,793	455,656

## Shareholders' Equity

### CAPITAL STOCK

#### Authorized

2,833 6% Cumulative sinking fund first preference shares, par value \$100, redeemable at up to \$105 per share

779 6¼ % Cumulative participating second preference shares, par value \$100, redeemable at up to \$105 per share

2,000,000 Common shares without par value

#### Issued

333 First preference shares

279 Second preference shares

652,500 Common shares

33,300	33,300
27,900	27,900
632,702	632,702
693,902	693,902
131,740	131,740
2,662,426	2,358,006
3,488,068	3,183,648
\$8,345,541	\$7,766,414

### CONTRIBUTED SURPLUS

### RETAINED EARNINGS

### SUBSEQUENT EVENTS AND COMMITMENTS (note 6)

### UNFUNDED PENSION BENEFITS (note 7)

## Notes to Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 1973

### 1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the wholly owned subsidiary companies G.M.I. Properties Limited and Galt-Brantford Malleable Limited, and the 80% owned subsidiary company, Molectrics Canada Inc. which had not commenced operations at December 31, 1973.

### 2. INVENTORIES

	1973	1972
Raw materials and supplies	\$ 417,498	\$ 337,877
Work in process	530,845	320,735
Finished Goods		
Manufactured	120,961	111,920
Purchased for resale	196,764	95,410
	<u>\$1,266,068</u>	<u>\$ 865,942</u>

Raw materials and supplies and finished goods purchased for resale are valued at lower of cost and replacement cost. Work in process and finished goods manufactured are valued at lower of cost and net realizable value.

### 3. INVESTMENTS

Investments are shown at cost and consist of:

- Marketable securities of \$47,500 with a current market value of \$5,250. It is the intention of the company not to sell these securities at current market prices.
- A one-third equity in the common shares of R. J. Simpson Manufacturing Company (Canada) Limited of Thamesville, Ontario at a cost of \$210,000. The remaining two-thirds equity is held by Simpson Industries, Inc., a Michigan corporation and a major customer of Galt Malleable Iron Limited.

The interest of Galt Malleable Iron Limited in the earnings of R. J. Simpson Manufacturing Company (Canada) Limited for the fiscal year ended June 30, 1973 was \$80,000 (\$86,000 in 1972). Of these amounts only dividends received of \$20,000 in 1973 (\$5,000 in 1972) have been taken into income. The equity of Galt Malleable Iron Limited in R. J. Simpson Manufacturing Company (Canada) Limited at June 30, 1973 amounted to \$545,000.

### 4. FIXED ASSETS

Buildings, machinery and equipment are valued at appraised values at May 3, 1956, with subsequent additions at cost. Other fixed assets are at cost.

### 5. LONG-TERM DEBT

	1973	1972
Galt Malleable Iron Limited		
5¼ % First mortgage sinking fund bonds due July 1, 1976	\$ 153,000	\$ 203,000
Less sinking fund cash	7,670	21,215
	<u>145,330</u>	<u>181,785</u>
5½ % General mortgage sinking fund bonds due July 1, 1981	213,500	213,500
Galt-Brantford Malleable Limited		
First mortgage income bonds due January 15, 1974		
6¼ %	400,000	480,000
6½ %	13,000	25,000
7¼ % Debenture due July 15, 1982	1,658,300	1,851,500
10% First mortgage bonds due June 15, 1982	533,496	597,496
	<u>2,963,626</u>	<u>3,349,281</u>
Less principal included in current liabilities	715,550	384,016
	<u>\$2,248,076</u>	<u>\$2,965,265</u>

These debt instruments are secured by the companies' fixed assets and by floating charges on all assets and undertakings of the company and its subsidiaries.

The company and its subsidiaries have agreed to certain regulation of the following activities:

- Investments
- Purchase and disposal of fixed assets
- Issue of long-term debt
- Issue and redemption of capital stock

Principal on long-term debt due within each of the next five years is as follows:

1974	\$715,550
1975	321,500
1976	365,746
1977	287,434
1978	289,097



## 6. SUBSEQUENT EVENTS AND COMMITMENTS

- (a) Under an agreement dated December 18, 1973, Galt Malleable Iron Limited acquired on February 26, 1974, 51% of the issued shares of Spraymould Limited and Spraymould (Bahamas) Limited and as of January 2, 1974 took over full operational control of these companies.

Galt is committed to contribute its management expertise to the operations of the companies and to advance or cause to be advanced sufficient funds to finance the operations of the Spraymould companies commencing on January 1, 1974. As security for these covenants the company has made a performance deposit with the vendors in the amount of \$100,000.

- (b) On February 8, 1974, Galt Malleable Iron Limited signed a memorandum of agreement with Alco Standard Corporation of Valley Forge, Pennsylvania and Bartaco Industries Limited of Orillia, Ontario, a controlled subsidiary of Alco, under which Galt will acquire a minority interest in the common shares of Bartaco through purchase of treasury shares and over a period of years will acquire majority control through purchase of common shares from Alco. Long-term financing has been arranged to meet the \$600,000 cost of the initial investment. Galt has undertaken to manage the business operations of Bartaco as of February 11, 1974 and will have effective control of that company through a voting trust agreement. Bartaco is to divest itself of its health club business. Certain aspects of the agreement are subject to approval by Bartaco shareholders.

## 7. UNFUNDED PENSION BENEFITS

The most recent independent actuarial report indicates that the single sum liability for unfunded past service pension benefits not provided for in the accounts at December 31, 1973 is approximately \$163,375. It is the company's intention to fund this liability by annual instalments (including interest) of \$16,625 through 1988.

## 8. ADJUSTMENTS OF PRIOR YEARS' INCOME TAXES

As a result of income tax reassessments applicable to the years 1967 to 1970, current income taxes and interest were increased by \$61,318 and deferred income taxes decreased by \$27,367. Accordingly, the balance of retained earnings at January 1, 1972 has been restated to show a retroactive charge of \$33,951 being the cumulative net amount by which income taxes and interest thereon had been increased as at that date.

## 9. OTHER STATUTORY INFORMATION

	1973	1972
Direct remuneration of directors and senior officers (as defined by The Business Corporations Act)	\$ 158,454	\$ 136,599
Depreciation and amortization	368,004	349,798

## Auditors' Report

To the Shareholders of  
Galt Malleable Iron Limited

We have examined the consolidated balance sheet of Galt Malleable Iron Limited and subsidiary companies as at December 31, 1973 and the consolidated statements of income, retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the

companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada

March 7, 1974

*Thorne Gunn & Co.*

Chartered Accountants







## **GALT MALLEABLE IRON LIMITED**

HEAD OFFICE: P.O. BOX 396, CAMBRIDGE (GALT) ONTARIO N1R 5V8

### PRINCIPAL OPERATING PLANTS:

- Cambridge: • Galt Malleable Iron Limited   
Foundry Division  
60 Kerr Street.
- Galt Malleable Iron Limited   
Hardware Division  
60 Kerr Street.
- Brantford: • Galt-Brantford Malleable Limited   
Foundry Division  
Power Line Road, Brantford Township

### CONTROLLED SUBSIDIARIES:

- Waterloo: • Spraymould Limited   
420 Weber Street North.
- Molectrics Canada Incorporated   
420 Weber Street North.



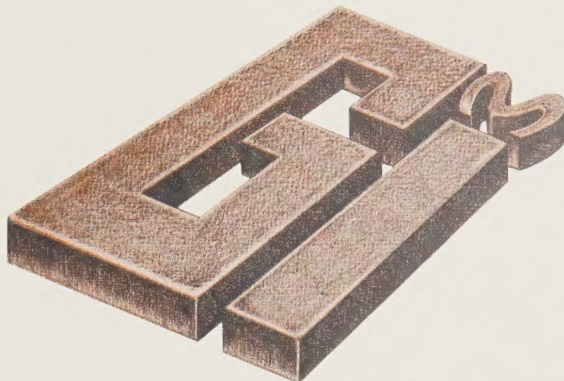
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# Consolidated Statement of Source and Application of Funds

(Unaudited)

	Six Months ended June 30	
	1972	1971
<b>Source of Funds</b>		
Operations:		
Net income for the period	\$ 277,191	\$142,908
Items not involving a current outlay (inflow) of funds:		
Depreciation	177,354	169,248
Increase in deferred income taxes	60,269	3,879
Discount on bonds and preference shares purchased for cancellation	2,145	2,300
Advances on long-term debt		52,955
Net income of subsidiary not consolidated in interim statements	13,946	1,335
	<u>\$530,905</u>	<u>\$372,625</u>
<b>Application of Funds</b>		
Additions to fixed assets	69,579	(8,698)
Long-term debt paid or included in current liabilities	183,629	152,051
Redemption of sinking fund bonds	12,218	54,082
Preference shares redeemed:		
by subsidiary from minority shareholder	100,000	
by parent company	300	2,000
Payment of preference share dividends	1,874	1,900
Life insurance cash surrender value	4,522	4,500
	<u>\$372,122</u>	<u>\$205,835</u>
Increase in working capital	158,783	166,790
Working capital at beginning of period	1,121,951	773,413
Working capital at end of period	<u>\$1,280,734</u>	<u>\$940,203</u>

## GALT MALLEABLE IRON LIMITED



**Interim Report**  
for the six months ended June 30, 1972



August 21, 1972

### To the Shareholders:

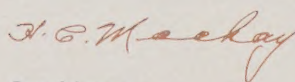
Your directors are pleased to report substantial gains in sales and earnings for the six months ended June 30, 1972.

Sales for the period rose to \$5,338,967, compared to \$4,046,861 for the first half of 1971. Net after tax income was \$277,191 against \$142,908 for the same period last year. Earnings per common share for the six months rose to 42c from 22c in 1971.

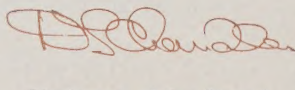
These favorable results reflect the current strength of the North American automotive market and the continuing improvement in efficiency and profitability of your Brantford foundry.

Earlier this year the company redeemed \$100,000 of Class A preference shares of Galt-Brantford Malleable Limited held by a minority interest. A continuing strong working capital position enabled your management subsequent to June 30, 1972, to redeem at par the outstanding balance of these shares amounting to \$100,000. Galt Malleable's management team was strengthened by the recent appointment of Douglas R. McKay as executive vice-president and general manager. Mr. McKay has a record in the North American automotive foundry industry as a successful administrator and his experience will contribute to a further increase in the efficiency of overall operations. Your company's marketing organization in the U.S. was also materially strengthened during the last few months.

The directors' optimism, based on current market strength, is tempered with caution owing to the still unresolved questions relating to the future of the Canada-U.S. Automotive Trade Agreement. Another matter for concern is the present high value of the Canadian dollar which adversely affects your company's position in the strongly competitive U.S. market. Notwithstanding these considerations, management expects that the automotive market will continue on an upward trend and that your company will maintain its present momentum of growth in sales and earnings for the second half of the current year.



President



Chairman of the Board



## GALT MALLEABLE IRON LIMITED

and its Subsidiary Companies

### Consolidated Financial Data

(Unaudited)

	Six Months ended June 30	
	1972	1971
Sales	<b>\$5,338,967</b>	\$4,046,861
Income before undernoted items	<b>889,525</b>	628,023
Depreciation	<b>177,354</b>	169,248
Interest on long-term debt:		
First mortgage income bonds	<b>17,670</b>	19,743
Debentures (relating to expansion program)	<b>99,810</b>	117,057
Other	<b>11,553</b>	12,600
	<b>306,387</b>	318,648
Income before income taxes	<b>583,138</b>	309,375
Income taxes	<b>305,947</b>	166,467
Net income for the period	<b>\$ 277,191</b>	\$ 142,908
Common shares outstanding	<b>652,500</b>	652,500
Earnings per common share	<b>42c</b>	22c